

## Message Text

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ACTION COME-00

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4138

C O N F I D E N T I A L SEOUL 4396

E.O. 11652: GDS

TAGS: BEXP, KS

SUBJECT: GERMAN FIRMS NOT WITHDRAWING

1. REPORTS HAVE CIRCULATED THAT SIEMENS, MAN AND HOECHST HAD SHARPLY REVISED THEIR VIEWS ON INVESTMENT IN KOREA BECAUSE OF TROOP WITHDRAWAL, AND THAT SIEMENS HAD DECIDED TO PHASE OUT. IN RESPONSE TO DISCRETE INQUIRIES, HOWEVER, SEOUL SOURCES SUGGEST THAT SIEMENS MOVE WOULD BE PREMATURE AND THAT IN EACH CASE COMMERCIAL REASONS PROBABLY ALSO ACCOUNT FOR A REDUCTION IN THE GERMANS' ORIGINAL ENTHUSIASM.

2. SIEMENS HAS A JOINT VENTURE WITH GOLD STAR TO MAKE EMD TELEPHONE SWITCHING EQUIPMENT (THE JOINT VENTURE HAS MONOPOLIZED THE KOREAN TELEPHONE EXCHANGE MARKET SINCE 1971), PABX EQUIPMENT AND TELEPHONES. IT HAS BEEN HIGHLY PROFITABLE AND WILL CONTINUE SO AT LEAST UNTIL ESS PRODUCTION BEGINS SEVERAL YEARS FROM NOW. NEITHER THE GERMAN EMBASSY NOR THE KOREAN PRESIDENT OF GOLD STAR HAD EVER HEARD THAT ANY THOUGHT WAS BEING GIVEN TO WITHDRAWAL AND BOTH THOUGHT IT MADE NO SENSE ANY TIME SOON.

3. MAN HAS PUT 46 MILLION DEUTSCHMARKS (\$20 MILLION) INTO A JOINT VENTURE SINCE 1969, THE KOREAN SHARES  
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IN WHICH WERE RECENTLY TAKEN OVER BY DAE WOO HEAVY INDUSTRY. MAN REPORTEDLY HAS BEEN DISAPPOINTED BECAUSE EXPORTS HAVE NOT DEVELOPED AND THE DOMESTIC MARKET IS TOO SMALL AND, MORE RECENTLY, BECAUSE HYUNDAI HAS BEEN AUTHORIZED TO MAKE DIESELS FOR USE IN ITS OWN PRODUCTS, DESPITE EARLIER ROKG ASSURANCES THAT NO OTHER COMPANY WOULD BE ALLOWED TO COMPETE. WE UNDER-

STAND UNDER MAN'S AGREEMENTS THAT IT CAN WITHDRAW ITS EQUIPMENT IN 1980 IF ITS LATEST TECHNICAL LICENSING AGREEMENT SIGNED IN 1975 IS NOT RENEWED. IT, HOWEVER, APPEARS STUCK UNTIL THEN AND IN ANY CASE HAS SAID NOTHING ABOUT LEAVING, TO OUR LOCAL SOURCES.

4. HOECHST HAS REPORTEDLY HAD PROBLEMS IMPORTING MATERIALS AND IN REACHING ITS OUTPUT GOALS, WHICH, HOWEVER, HAVE NOW BEEN SOLVED. LOCAL SOURCES DENIED THEY WERE CONSIDERING WITHDRAWING.

5. COMMENT: EACH OF THE THREE FIRMS HAS HAD OR WILL HAVE BUSINESS DIFFICULTIES IN KOREA. IN THEMSELVES THEY DO NOT, HOWEVER, SEEM SUFFICIENT TO CAUSE THE FIRMS TO SELL OUT. U.S. TROOP WITHDRAWAL COULD POSSIBLY CREATE ENOUGH ADDITIONAL RISKS TO MAKE THEM CONSIDER THAT COURSE, BUT THEY CANNOT LIQUIDATE QUICKLY. PERHAPS MORE TO THE POINT, HOWEVER, TROOP WITHDRAWAL COMING ON TOP OF WHAT THEY SEE AS A POOR BUSINESS PROSPECT SEEMS TO MAKE KOREA UNATTRACTIVE FOR FUTURE INVESTMENT.  
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